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Part III: Performance Narrative

A. Challenges

The Philippines is a critical partner in the global war on terrorism. Since the September 11, 2001 terrorist attacks on the United States, President Gloria Macapagal Arroyo has stood shoulder-to-shoulder with the United States. She granted access rights to U.S. ships and planes and moved swiftly to achieve passage of an anti-money laundering bill, developed with USAID assistance, to aid international efforts to cut off funding for terrorist organizations. She requested U.S. help in defeating the Abu Sayyaf, an armed terrorist group holding U.S. hostages in Mindanao. Arroyo's leadership in supporting the U.S. has awakened U.S. policy makers to the importance of this trusted ally. Indeed, the threat to U.S. national security of not staying engaged may be significant. The Philippines has proven in the recent past to be a platform for terrorists to plan and organize international attacks.

The Philippines is a recognized leader among Southeast Asian nations as they confront the political and economic challenges presented by China's WTO admission. This recent development will present either an opportunity for new markets or an overwhelming challenge from fierce competition. The Asian Financial Crisis, followed in 1999 by the internal conflict with the Muslim separatist groups, brought foreign investment almost to a standstill. Hostage taking by the Abu Sayyaf ended tourism in Mindanao. The current worldwide economic downturn and the bursting of the information technology bubble slashed demand for the Philippines' largest export--electronic components. The cumulative economic impact has been staggering. Per capita GDP tumbled from \$1019 in 1999, to \$977 in 2000, and has dropped further still to \$912 in 2001.

Although its democratic system has demonstrated vibrancy and resilience, the Philippines remains East Asia's economic growth laggard. Between 1975 and 1999, per capita income grew by only 14%, compared to 326% in Indonesia, 153% in Malaysia and 220% in Thailand. Poverty afflicts 40% of the population, the highest incidence in Southeast Asia.

Corruption and unbridled population growth are the most critical factors contributing to the Philippines' continued poor economic growth and poverty. The country has East Asia's fastest growing population: 2.36%, as compared with 1% in Thailand, and 1.6% in Indonesia. Lack of transparency and corruption constrain performance at all levels of the executive branch, the legislature, and the judiciary. Systemic and structural weaknesses allow corruption to flourish, inhibiting the development of competitive markets, deterring foreign investors, and severely limiting the Government's ability to raise revenue. Uneven distribution of the benefits of economic growth has disproportionately excluded the Muslim minority, strengthening the resolve of armed separatist groups in the Mindanao, some elements of which have been linked to Osama bin Laden's al Qaeda terrorist network. The on-going conflict feeds the cycle of poor economic performance by scaring off private investors, halting tourism, and draining fiscal coffers of funds needed for infrastructure and education.

The country's natural resources are being severely depleted. Overfishing and use of dynamite and cyanide to catch fish are threatening the country's food security and livelihood of millions of coastal families. Fifteen years ago, fishermen caught 20 tons per unit effort; now it is less than 2 tons per unit effort. The country continues to lose over 100,000 hectares of forest per year due to illegal logging and converted forests. As a result, the Philippines reports \$300 million worth of wood products each year. The Philippines has one of the highest electricity rates in Asia, discouraging foreign investment and competitiveness.

Critical networks for family planning and health service delivery have seen considerable expansion and improvement over the last year. USAID's better understanding of the factors influencing accessibility of health services has translated into improved support to the public sector in setting quality standards and making services more financially available to the population. The transition from the centralized DOH network of nationally funded public providers to the decentralized local networks of public outlets has been completed and it is now extremely important that the Local Government Units (LGUs) are adequately prepared to plan and manage their health care programs. While critical support functions

from logistics to communications to operations research and training can be performed with reasonable levels of technical competence and adequate geographic coverage, more work is needed in this area. A large, robust and innovative private sector remains a major under-utilized asset for delivery of basic services such as family planning, quality TB DOTS treatment and HIV/AIDS prevention.

Service expansion and service sustainability remain key challenges to achieving program success. In family planning, for example, all method contraceptive prevalence levels must rise by almost 60% for the next 5 years if women are to achieve their desired family size. This is a large increase, one which the public sector by itself surely cannot meet. In addition, USAID, which currently provides all of the public-sector contraceptives, has indicated that it can no longer finance all of the needed contraceptives, while at the same time the GOP has suspended all purchases of contraceptive supplies. Thus, it is becoming increasingly clear to the GOP, to donors, and to other stakeholders in the PHN sector that future assistance must promote the expansion of services by the private sector, both to meet current needs and to assure sustainability of service provision in the future.

Significant gains were made this year in preventing escalation of the Mindanao conflict, in assisting and leveraging activities of local and US enterprises. The Mission has achieved major policy reform success in areas including anti-money laundering, public procurement, biotechnology, tax and customs administration, the energy sector, national health insurance, coastal fisheries, e-commerce, telecommunications, air and sea transportation, and the judicial sector. The Mission is seeing a continued decrease proportion of births in high risk category; decreased TB mortality; and have maintained HIV/AIDS prevalence at less than 2% among the groups practicing high-risk behavior. Tentative CY 2001 results indicate a continuing decrease in the total fertility rate from 3.7 in 1998 and an increase in contraceptive prevalence rate from 47% in 2000 to 49.9%. The goal of protecting productive, life-sustaining resources was advanced in several ways in 2001. First, 1,649 kms of shoreline (500 kms in Mindanao) were placed under improved management, for a total of 3000 kms to date. Forty-eight local governments (seven in Mindanao) were certified as demonstrating best coastal resource management practices, for a total of 96 – a 700% increase from the 1995 baseline.

B. Program Performance

492-001: Economic Development of Mindanao

In 2001, this SO met expectations in the following areas where it has been focusing on: support for the Government of the Philippines' (GOP) peace and development program; assistance in the formal financial sector provision of microfinance services; strengthening of key business support organizations (BSOs); acceleration of infrastructure implementation and policy reforms; and improvement in the fruit and vegetable cold chain in Mindanao.

Achievements

Support the GOP Peace and Development Program

FY 2001 assistance enabled 1,700 former MNLF combatants make the transition from guerilla fighter to productive farmer--bringing the total number of former MNLF combatants provided with the capability to make a reasonable living to 13,000. An assessment carried out by an independent organization determined that almost 95% of USAID's program "graduates" were still carrying out the production activities in which they had been trained. The assessment also determined that USAID's program had been a key factor in dissuading these former combatants from again taking up arms against the government, or joining the Abu Sayyaf terrorist group.

USAID also helped to strengthen Muslim business organizations including the Western Mindanao Seaweed Federation (seaweed is the main source of income in Western Mindanao, which is 90% Muslim and the scene of most recent fighting in Mindanao) and helped to accelerate rural infrastructure development in conflict-affected areas. USAID provided the Presidential Assistant for Mindanao and the Presidential Advisor for Regional Development with technical, administrative, communication and

logistical support for the GOP's peace initiatives. USAID has had an important role in facilitating the GOP's efforts in developing the East Asean Growth Area (Mindanao, Brunei, and parts of Malaysia and Indonesia) which is focused on economic and security cooperation. In late 2001, in recognition of USAID's prior peace and development activities, the newly elected Governor of the Autonomous Region in Muslim Mindanao asked for USAID technical support for his transition team.

Microfinance Development

In 2001, USAID assisted 74 rural bank branches develop the capability to profitably service the microenterprise market. As of December 2001, there are about 12,135 active loan clients among the 74 participating banks, significantly exceeding the original target of 8,000 active loan clients. The original target of 15,000 active microsavers was also exceeded with the participating banks reporting 78,348 active microsavers as of the close of 2001. USAID assistance also helped the Central Bank to understand and become more supportive of best practices in microfinance lending, which will strengthen the entire microfinance sector nationwide.

Support for Key Business Support Organizations (BSOs)

In 2001, the SO achieved significant progress in establishing the Mindanao Business Council as the lead business organization, and the "voice" and policy advocate for the private sector in Mindanao. In December, the President of the Philippines organized a National Economic Summit. The Mindanao Business Council Chairperson was selected as one of only five business leaders in the Executive Committee for this important national summit. The MBC began to bring in as general members and Board members producer organizations and Muslim business organizations. Today, 3 of 15 Board members are now Muslims and 5 represent producer organizations.

The SO also provided technical assistance to 21 key business support organizations (BSOs) which represent approximately 80,000 farmers, fisherfolk, traders, processors and other small businessmen and women in Mindanao. During the year, GEM-assisted BSOs had a membership increase of 96%. These BSOs provide their members a range of services to increase productivity, provide an opportunity for cultural minorities to enter the economic mainstream, and advocate for policy reform. For example, in 2001, the Socsargen Fishing Federation successfully concluded an initiative to have the GOP sign a bilateral fishing agreement with the Indonesian Government. This agreement provides for fishing access and supports management of fish stocks.

GEM also helped organize Muslim business people, and supported their participation in the national development dialogue. GEM has strengthened the capacity of the private sector in the conflict-affected areas by working with and through the Muslim Business Forum (MBF) and other Muslim business support organizations including the Maguindanao Chamber, Tawi-Tawi Chamber, the Muslim Chamber of Kutawato, and the Sulu Chamber. The GEM-supported MBF has been increasingly recognized as the lead Muslim private sector organization in Mindanao (and the Philippines). The MBF led a Muslim business delegation in President Arroyo's official party on her first State visits to Malaysia, Brunei, Singapore and Indonesia. The MBF outreach to business groups in conflict-affected areas has an expanding network of business support organizations in those areas. The MBC also organized the 1st Summit on Muslim Economic Initiative, and as a partner in the 2001 Mindanao Business Conference assured that, for the first time, Muslims were the majority of participants.

Accelerate Infrastructure Implementation and Policy Reform

The SO provides technical support to government and private organizations in working to increase Mindanao's infrastructure budget and to accelerate infrastructure implementation. In 2001, USAID helped these organizations assure that delays are minimized on 24 key infrastructure projects, 22 pipeline donor projects are made ready for implementation, 13 important infrastructure facilities damaged in recent fighting are programmed for repair, and that 36 projects affected by budget cuts will be implemented. Special focus has been given to leveraging funds from the GOP and other donor organizations for the construction of rural infrastructure in conflict-affected areas. In 2001, USAID installed 12 corn mills and 2

rice mills (financed by the GOP's Department of Agriculture) and trained coop members in their use and maintenance, packaged 9 warehouses and solar dryers for funding under the World Bank Social Fund, identified and supervised construction of 40 shallow-tube wells funded by the National Irrigation Authority, and packaged and built three post-harvest facilities funded by the British and New Zealand governments. The beneficiaries of all these projects are Moro National Liberation Front cooperatives in conflict-affected areas.

Improve the Fruit and Vegetable Cold Chain

In 2001, significant progress was achieved in bringing about widespread improvement in the productivity of fruits and vegetables producers in Southern and Northern Mindanao, and in improving their marketing and distribution system. There was a dramatic increase in vegetable shipments out of Northern Mindanao (a 22% overall increase over 2000), and the access to traders and farm input suppliers at the farm level improved. USAID also assisted an investor in developing a new fruit processing plant in Davao City, only the second such plant in Mindanao.

492-002: Economic Governance

Overall this SO met planned expectations as the GOP continued to implement its trade liberalization program, and gains were recorded in domestic tax revenue performance and employment. Rapid passage of an Anti-Money Laundering Law in September 2001 strengthened the war on terrorism. Rules were established to ensure the security and validity of electronic transactions and enable growth of e-commerce and related job-creation. Improved policies and regulation in the communications sector has helped fuel the phenomenal 20% growth of the sector in 2001. USAID's past and on-going initiatives to reduce costs associated with corruption and inefficiency at the ports resulted in Philippine President Arroyo mandating development of a program to reform national ports management policy. USAID assistance also facilitated a new air-services agreement with Singapore, preservation of competition on the Philippines-Taiwan route, and an end to monopolies on other international air routes. In the judicial sector, the Philippine Judicial Academy issued guidelines on the doctrine of primary jurisdiction to ensure consistent enforcement of commercial law and economic regulations by trial-court judges and quasi-judicial regulatory agencies. A court-managed mediation system, reduced the cost and time involved in seeking justice. Over 200 mediators were trained and accredited under the new procedures.

Achievements

Global Development Alliance Achievements

In 2001, this SO leveraged funds in the amount of at least \$1.2 million, working with U.S. firms including Nextel, Motorola and Monsanto.

Competition in Telecommunications: Joint efforts between U.S. trunk-radio operator Nextel, the Foreign Commercial Service, and the National Telecommunications Commission (NTC), with USAID technical assistance, eliminated barriers to interconnection between carriers. Thus, future entrants to telecommunications in the Philippines can contest the market, thereby creating competitive pressure to introduce new technology and expand services. In addition, USAID's technical assistance teamed with efforts by both Nextel and Motorola to push for reforms in the mechanism by which radio spectrum is allocated. In response, the NTC has revised the spectrum user's fee for mobile services which discourages hoarding of frequencies and promoting efficient use of the spectrum. Finally, USAID helped the NTC and stakeholders formulate and adopt guidelines for a transition to cost-based, retail pricing of telecommunication services, allowing competitive expansion in telecommunications based on efficient performance by the unsubsidized private sector.

Biotechnology Commercialization: Teaming with Monsanto, local farmers, and Philippine scientists, USAID's technical assistance to the Department of Agriculture and the National Council for Biosafety of the Philippines resulted in 2001 in the drafting of sound guidelines for field testing biotech seed varieties in the Philippines.

Microfinance. USAID has persuaded the World Council of Credit Unions to expand technical assistance for cooperatives' microfinance activities to the conflict-affected parts of Mindanao and Sulu. By supporting grass-roots development, this partnership attacks the basic causes of conflict and removes potential breeding grounds for terrorism. This program is expected to start in 2002.

Local Governance in Conflict-Affected Areas. USAID has persuaded its long-time partner, The Asia Foundation, to expand its governance program to conflict-affected areas of Mindanao and Sulu. Improving the representation and performance of local governments will give ethnic and religious minorities a greater voice in governance, thus removing one of the core grievances that has led to conflict. This program is expected to start in 2002.

Achievements in Economic Growth, Agriculture, and Trade

- Critical, private markets expanded and strengthened

Competition in Telecommunications. Results achieved in telecommunications are described under the Global Alliance Achievements above.

Development of E-Commerce. In 2001, USAID assisted the establishment of rules to ensure the security and validity of electronic transactions and enable growth of e-commerce.

Protecting Intellectual Property Rights. USAID supported the introduction of legislation to combat optical disk piracy, a leading cause of bilateral friction and a disincentive to siting of advanced technology industry in the Philippines. For 2002, USAID's assistance will help the Department of Trade and Industry and the Intellectual Property Office create intellectual-property enforcement units within the policy, customs, and telecommunications sectors, and will train judges, prosecutors, and other enforcement agents.

Competition in Aviation. USAID supported stakeholders efforts that succeeded in opening competition in several international air routes in 2001, instantly lowering prices and raising seat availability for overseas Filipino workers, business travelers, and tourists. Implementing rules for a liberal Executive Order on aviation were also finally issued in 2001.

Competition in Port Services. As a result of a multi-year dialogue involving several USAID technical assistance projects and several stakeholder groups, the Philippine Ports Authority signaled its intention to introduce competition in port services, by signing a technical assistance agreement to package the modernization of Manila's main harbor for private participation.

Stable Financial Markets. For 2002, priority status has been given by the President to key legislation that USAID has assisted in preparing, including laws to permit securitization of mortgages, strengthened regulation of pre-need firms and mutual funds, elimination of transaction taxes on secondary financial markets.

- More rapid and enhanced agricultural development and food security encouraged

Biotechnology Commercialization. In addition to the results achieved by teaming with Monsanto, for 2002, USAID will help complete the process of consultation and issuance of the guidelines, as well as overseeing the beginning of implementation. Consultations will include wide audiences like Catholic Bishops and local-government executives.

Foodgrain Availability. For 2002, USAID will coordinate with the ADB regarding technical assistance to the Department of Agriculture on introducing market mechanisms into the rice sector. The objective of this assistance is to gradually modify the GOP's policy of high rice prices, which has depressed consumption, increased malnutrition, and discouraged productivity growth.

- Access to economic opportunity for the rural and urban poor expanded and made more equitable

Microfinance Facilitation. USAID supported the development of performance standards for sustainability of microfinance institutions in both the regulated and unregulated sectors. Technical assistance was also provided to the Central Bank to facilitate the issuance of regulation that will provide an enabling environment for microfinance.

Achievements in Democracy, Conflict, and Humanitarian Assistance

- Rule of law and respect for human rights of women as well as men strengthened

Commercial Law Strengthening. USAID focused on building up the capability of judges in the enforcement of commercial laws, by developing training curricula and initiating the development of various manuals and educational materials.

Strengthening Alternative Dispute Resolution. USAID's partner in Reforming the Administration of Justice through Coalition Advocacy established a self-regulating organization to govern the provision of mediators to the court system. Over 400 mediators have been certified and recognized by the courts.

Community Justice. Volunteer mediation of mostly family disputes at the local ("barangay") level, though a local NGO project supported by USAID, has proven its effectiveness in achieving rapid settlements and dramatically reducing the flow of cases to the courts. Courts' case backlogs have been reduced by 60%. For 2002, The program will expand into conflict-affected zones in southern Mindanao and spread further in the national justice system.

- The development of politically active civil society promoted

Stakeholder Support for Economic Governance. USAID supports stakeholder organization as a standard element of economic policy reform and the strengthening of economic governance. Sectors in which USAID's support for stakeholder organizations will continue through both 2001 and 2002 including aviation, ports, telecommunications, biotechnology, intellectual property rights, judicial reform, procurement reform, and anti-corruption.

- More transparent and accountable government institutions encouraged

Money Laundering Outlawed. USAID supported an inter-agency initiative led by the central bank and the Department of Justice to pass the Philippines' first Anti-Money Laundering Act. For 2002, USAID will continue to provide assistance in drafting implementing rules and communicating to stakeholders and the broader public the value of this law and how it will be used against corruption and terrorism.

Government Procurement Reformed. USAID's assistance initiative for procurement reform reached a landmark with the approval of Executive Order No. 40 giving Presidential status to recent executive issuances reforming government procurement of goods, services and infrastructure. Anti-competitive prequalification procedures for public works requirements have been eliminated and replaced by eligibility checks, with tremendous timesaving and reduction in vulnerability to corruption. USAID's assistance was also critical to the strengthening of private markets for medium-sized road maintenance contractors beginning, increasing the number of contractors initially answering a call for bids from the usual 1 to 2 eligible bidders to 8 to 10. For 2002, USAID expects that a Procurement Act will be passed giving these reforms statutory basis and consolidating procurement law.

Revenue Administration Reformed. USAID assisted in helping the Bureau of Internal Revenue develop and communicate a clear strategy for institutional reform to control corruption in tax administration. For 2002, assistance will continue to prepare the Bureau of Internal Revenue for implementation of institutional reforms.

Customs Administration Reformed. USAID's assistance was critical in helping the Commissioner of the Bureau of Customs establish a post-entry audit unit and super-green line procedures within the Bureau. Substantial internal organizational improvements including staff training and systems development have assisted the BOC in implementation of the WTO Customs Valuation Agreement.

Local Government Finance Strengthened. The first local-government bond co-guarantee by USAID took place with the Local Government Unit Guarantee Corporation. More co-guarantee transactions are expected in 2002.

- Conflict. Achievements in a pre-conflict situation

Microfinance Facilitation for Conflict-Affected Areas. SO2's assistance to the Department of Finance targeted strengthening of microfinance institutions in Mindanao through establishment of a supportive policy and regulatory framework.

492-003: Family Planning and Health

The SO met expectations in 2001. Over the past nine years, the PHN strategy has had a two-part program emphasizing family planning and the containment of HIV/AIDS. Considerable progress has been attained in both areas. The contraceptive prevalence rate (CPR) for modern methods increased to 33.1% in 2001, up from 32.3% in FY2000. The average annual increase in CPR from 1993 to 2001 has been raised to 1.03 percentage points per year from the 1983-1993 average of only 0.60 percentage points per year. The percentage of children aged 12 months or less who have received their third dose of DPT increased to 80.5%, exceeding the FY 2001 target of 69%. USAID activities in addressing Vitamin A deficiency among children aged 6-59 months resulted to Vitamin A coverage of 75.6%. The percent of births in high-risk groups decreased from 58% in 2000 to 56.3% in 2001. Despite abundant evidence of widespread risky behavior, an explosion of HIV/AIDS infections has thus far been prevented. And while TB remains an important source of mortality and morbidity, it has not spun out of control.

The beneficiaries of these activities are the approximately 9.2 million married women of reproductive age (age 14-49 years) and 10 million children below the age of five whose health will significantly improve as a result of activities implemented under the program.

Achievements

Policy Reform

USAID assistance to PhilHealth for the National Health Insurance Program (NHIP) resulted in the improvement of the benefit package not only in terms of money value but also in the types of services eligible for NHIP payment. The benefit package has been expanded to include outpatient services including selected family planning methods. NHIP provides coverage to 48% of the population (an increase from the 42% coverage in 2000) and is now offering great opportunities for expanding the use of these key resources. In response to the Philippine government's efforts at making health services within the reach of the poor, USAID also supports the NHIP Indigent Program which targets the poorest of the population for membership into the program. At least 66% of the Philippines' total number of provinces have signed memoranda of agreement with PhilHealth, and 876 municipalities (52% of the total) have actually issued membership cards to poor populations of the province.

Advocacy and Communication

USAID supported the formation of the first ever Reproductive Health Advocacy Network to advocate for an improved Population Bill, which was filed in FY2001. With USAID technical assistance, the first FP/RH Investment Plan, a milestone in the Department of Health (DOH) budget planning process, was completed by the DOH Center for Family Health and Environment. USAID support to the FP/RH national communications campaign also resulted to an increase in the use of modern contraceptives following the family planning TV campaign period carried out during the fourth quarter of 2001.

Service Delivery (Private Sector)

Following a March 2001 program evaluation of the FriendlyCare Foundation, USAID assistance was revised to emphasize a refocusing of FriendlyCare's efforts to provide family planning services. Some steps taken by FriendlyCare to improve its family planning performance included: dramatically restructuring the organization to reduce overhead costs and improve management systems, improving its family planning pre-deployment training program; revising its mission, vision, goal and core business statements to reflect greater focus on family planning; developing and improving marketing of family planning clinical treatment packages; and implementing a successful family planning campaign. This dynamic private sector model for delivering family planning services added seven new clinics in the last year and the ten-clinic network has now served over 90,000 Filipinos.

To further boost the private sector's share in the provision of FP and MCH services, an additional 61 midwife clinics were established bringing the total to 192 midwife clinics operating nationwide. The remaining four clinics, which are all in Mindanao will be inaugurated before June 2002. Over the last year, the program provided 41,500 couple years of protection and generated approximately \$1.1 million in income to support these individually owned midwife clinics.

Local Government Health Systems

The matching grants program greatly expanded its impact incorporating 120 new participants, bringing the total to 182 cities and municipalities to the program to improve family planning, vitamin A supplementation, tetanus toxoid vaccination, and the fully immunized child initiative. The performance incentives provided by USAID ended last year and this expansion was completely funded by the GOP. Eight of the new participating cities are in the conflict affected areas of Mindanao.

The Quality Assurance Program roared ahead this year adding the third and most peripheral level of facility (i.e., barangay or village health stations) to the quality awards program and certifying 97 facilities as meeting the standards. In total 267 additional facilities achieved the high levels necessary to obtain the award. Among the total number of health units, the primary referral facility in the system, 1053 or 43% have achieved certification.

Implementation

USAID is combining the original SO3 (Reduced Fertility Rate and Improved Maternal and Child Health) with SO7 (Threat of HIV/AIDS and Other Selected Infectious Diseases Reduced). Beginning in FY 2001, and up to January 2002, USAID conducted extensive consultations with partners and stakeholders to get their ideas on how an integrated approach to the implementation of these two programs can best achieve their goals and objectives. These consultations resulted in a better understanding by partners and stakeholders, of the rationale for integration and how supported could be better defined to achieve the SO. The integrated approach takes advantage of emerging opportunities such as more mature local government units, a greater appreciation and acceptance of the role that the private sector can play in the delivery of services, and a broadened social health insurance system.

SO3 was previously notified in the Congressional Budget Justification of the Annual Report submission as, "Reduced Fertility Rate, Maternal and Child Morbidity, TB Mortality and HIV/AIDS Prevalence". The wording has been restated in the new SOAG, and in this second section of the Annual Report, to take into consideration cultural and political sensitivities that emerged during the consultations. The revised SO statement is "Desired Family Size and Improved Health Sustainably Achieved." Decreases in the fertility rate continue to be measured as an SO level indicator.

492-004: Environment and Energy

The SO met expectations in 2001. With USAID assistance, 16,460 ha of coastal resources were placed under improved management in FY 2001 for a total area of 30,560 ha of coastal resources managed by

96 local government units (target was 21,000 ha). USAID also helped place 104 has of coral reefs, mangroves and sea grass under community-managed protection at 13 sites in FY 2001 for a total of 5,014 ha covered by marine protected areas (target was 5,000 ha). Landmark legislation was passed with the support of highly effective civil society advocates and coalitions to increase competition in generating electricity and to promote greater transparency in distributing electricity in order to reduce energy costs. With USAID assistance, 299 companies (target 300 companies) are applying environmental management systems to reduce industrial pollution and increase operational efficiency.

Achievements

Reduced Overfishing and Use of Destructive Fishing Practices

A national policy was issued expanding the area of coastal waters under municipal governance from 7 to 15 kilometers. This policy is intended to reduce fishing pressure in coastal waters from large-scale commercial operations. USAID assistance was instrumental in documenting the need to reduce overfishing in order to enable fish stocks and critical habitats to regenerate and provide the basis for food security and sustained employment.

Reduced Illegal Logging

A USAID partner exposed illegal logging and corruption in forest management in northern Luzon. Television programs and newspaper articles documented the inefficient public service and rampant deforestation. This expose generated tremendous public interest and renewed Government commitment to protect rapidly dwindling forests.

Reduced Energy Costs

USAID helped inform the public on the need to reduce energy costs in order for the Philippines to become more competitive in attracting and keeping economic investments. USAID built a coalition of concerned stakeholders to generate the political will to develop and pass landmark legislation reforming the energy sector through an open and accountable process. USAID also supported 18 highly participatory consultations throughout the country on the Implementation Rules and Regulations. This Act includes specific provisions aimed at increasing competition in generating and distributing electricity as well as an independent Energy Regulatory Commission to handle rate cases and prevent market abuse. However, strengthening the institutional capability to implement the new law remains a major challenge.

New initiatives launched

USAID began new programs to expand renewable energy, reduce vehicle emissions, increase the use of natural gas and improve environmental governance.

USAID will electrify over 160 remote communities in Western and Central Mindanao with renewable energy. The priority focus will be on communities of former rebel combatants who have been assisted by USAID to develop alternative livelihoods. USAID will partner with the private sector in co-financing renewable energy equipment, e.g., solar panel, wind mills or microhydro generators, and USAID will strengthen the communities' ability to manage and finance operations and maintenance of renewable energy systems.

USAID will reduce vehicle emissions through policy reform, increased public support and civic action. This program will phase out the importation of second-hand, polluting engines and support the development of nationwide vehicle emissions testing facilities. Radio dramas in local dialects and other information media will inform the public on the severe negative health impacts on poor communities from excessive vehicle emissions. Civic actions to increase the enforcement actions against smoke belching vehicles will be supported.

A new regulatory framework will be established to encourage investment in the use of natural gas, such as in electricity generation and as an alternate fuel for vehicles. This effort will entail open and participatory consultations and study tours to the U.S. to learn about and apply best practices in successful regulation of natural gas.

USAID will strengthen the ability of local governments, especially in Western and Central Mindanao, to conserve coastal resources, protect forests and manage solid waste. The program will promote greater transparency and accountability in the issuance of permits, contracts and licenses; collection and spending of revenue; and enforcement of environmental laws.